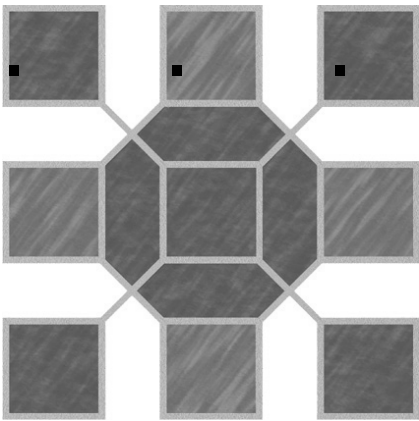


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**In Sweden we have
already solved this
problem**



*A defence of the
Swedish social model
by Waldemar Ingdahl*



In Sweden we have already solved this problem

There is a very interesting, and enlightening, anecdote about the origins of the very positive image of the Swedish welfare state abroad is given in a book by Axel Odelberg ("De fattiga & de rika: om Sverige och Schweiz", Timbro. Stockholm 1998). In the early 1970's many nations around the world faced similar societal problems as they entered late industrialism. Many were daunted by problems being on the labour market, in social issues, of the environment, on maintaining competitiveness in a world that had begun to feel the first breeze of what would much later on be known as "globalization".

Into this chaos, on international conferences for policy makers, researchers and public intellectuals, there was usually one alleviating voice: the invited expert from Sweden that started his slides presentation with an unmistakable drawl in broken English, "maeny contrys ar pressently eksperiensing grejt diffikulties in addapting to the new sittuation in this sossietal issue. In Sweden wi havve allreddy solved diss problem...", explaining in a lengthy description spanning over several graphs how an extremely ambitious governmental programme poured billions of Swedish krona on solving said problem and showing optimal results by all societal parameters and with an ecstatic citizenry who somehow did not seem to mind an abominably elevated rate of taxation.

In a world stuck in conflict between the "capitalist" United States and the "socialist" Soviet Union, it is understandable that it seemingly offered relatively simple solutions and good results while presenting the allure of combining the better of the two systems. As many policy makers' worldview still are dependent on identifying the same parameters for societal success as back then, "the Swedish model" clings on as a success case to either show as an example, but also as a very dangerous boogiemans to be deconstructed and criticized for those of differing political opinions.

An unexpected ascent and descent

At present, the European Social Model is being heavily discussed in Europe. Some still laud it, but its problems are obvious, with low economic growth, an ageing population coupled with "pay-as-you go" pension systems and wide-spread persisting unemployment.

In Sweden we have already solved this problem; we discarded the social model and replaced it with a free market system.

This announcement may come as a big surprise to many in Europe. Especially since Swedish Prime Minister Göran Persson, has spent the whole spring of 2006 exalting the Swedish model for being both fair and competitive, like in the good old days.

But the fact is that PM Persson has, since the beginning of his government more than a decade ago, radically transformed what has been perceived abroad as the Swedish model. What we might believe about a model might not be the truth about it, but solely a projection of our ideological predilections and dated assumptions.

Initially, the Swedish model meant full employment and low inflation of the 1950's, something that was achieved through competitive industries, relatively low taxation (lower than the US' level of taxation at the time) and relatively unregulated markets.

This Swedish model was in fact abandoned in the 1970's, precisely when Sweden gained its international fame and admiration. Then, the world's highest taxes rates were introduced, together with interventionalism particularly in social policy and labour market regulations. An ill-fated attempt to introduce the radical "next step" towards Yugoslav-style trade union controlled socialism ended the decade. The expansion of the role of government was possible due to the system's previous success, not the cause of the success. The result of this expansion was the dismal crisis of the early 1990's when the Swedish Central Bank vainly tried to connect an overvalued krona to the ERM- mechanism, and then protect it with 500% interest rates.

The rest of the decade consisted in the Social Democratic Party slaughtering many of the Swedish model's pet projects, but the process was executed in silence. It was not the conscious and explicit change of policy affected by the UK's New Labour. It was a change of course in practice, but not in the theories underlying policy and in the government's rhetoric. The gap between word and action became, and still is, wide in the public debate.

The Swedish free- market model

When looking at Sweden today and comparing it to the rest of the EU's member states, one is struck by its relatively free market approach. It ranks at 14th place in the 2005 Heritage Index of Economic Freedom and 24th the Cato/Frasier Economic Freedom of the World 2005 Annual Report.

Sweden has for a very long time been very favourable to free trade, which is understandable since 60% of the GDP derives from it. For a time in the early 1990's Sweden abolished all farm subsidies and had one of the most deregulated agricultural sectors in the world, before unfortunately being forced to re-regulate when entering the EU's Common Agricultural Policy.



In 1996 Sweden deregulated its market for electricity, allowing private competition in the distribution. The reforms made it possible for the consumer to freely choose between electricity providers and to personally renegotiate contracts. 50% of all the consumers have either changed provider or made new deals with their old provider. Today, half of the nuclear power plants are owned by a German corporation and Sweden has some of the lowest prices in Europe.

Telecommunications, postal services and public transportations have largely been deregulated, opening up new markets. The state monopolies have been abolished and the telephone company has been partially privatized.

The introduction of a voucher system for schools has opened up a market where the parents have a high degree of choice of where the children should be educated.

Health care has seen a high degree of opening up for private alternatives, much thanks to the labour unions of doctors and nurses. In fact, one of Stockholm's largest emergency hospitals, St. Göran's hospital, is a private company listed on the stock exchange.

Sweden has a comparatively low corporate taxation rate of 28%. The process for opening a business in Sweden is relatively easy and straightforward, ranging from one week to a couple of months.

Sweden presents few barriers to foreign investment, maintaining restrictions only on investments in companies involved in some limited national security-related sectors. Most commercial banks in Sweden are privately owned and operated. Banks are allowed to offer a full range of services, and foreign banks have access to the banking sector.

Very few working days are lost in strikes. It is easy to close down factories and other plants, and move the investments abroad. There is no legal minimum wage. Unlike other European countries, there are no regulations of trading hours for retailers and shops. In 2005 the government abolished the inheritance tax and gift tax. The Swedish Competition Authority has forcefully reacted against local politicians that restrict full competition.

Sweden has a high immigration per capita and was, with the UK and the Republic of Ireland, the only EU-15 member not to impose any restrictions on work force immigration from the new member countries.

The pension system has been reformed, from the problematic "pay-as-you-go" formula, to a system funded on the performance of the economy. In the fully funded system all Swedes choose investments for their pensions. If the economy does not grow, pensions will be low, and there are mechanisms that prevent the system from going bankrupt.

These changes, that would be seen as radical if enacted in the "Anglo-Saxon" market model have paid off for Sweden giving us a relatively high GDP growth rate (1.6% in 2003), higher than the OECD average the last 10 years. Inflation has successfully been lowered to an average of 1.8% in 2005.

Looking ahead

Granted, it is an easy task to become a paragon of liberalization in today's overregulated and sclerotic Europe. But it shows that what many Europeans favourably refer to as "the Swedish model" is not applied any more in Sweden. The remnants of the old model, the high income taxation (60.3% on average), the high VAT of 25%, the regulated work market and the insufficiently reformed social redistribution systems are the problematic areas in the Swedish economy, not its bold vanguard. Quite often, the effects of pork-barrel spending, corporate welfare or the catering to special interest groups are confused in the public debate with ideologically motivated programmes. But the policies of today's opportunistic social democratic government are nothing like the ideologically conscious policies enacted under Prime Minister Olof Palme.

The surprising fact is that if Sweden lowered its income taxes to a French or German level, it could well become the freest economy in the EU. This fact needs to enter the international debate, continuing to discuss the Swedish social model as if nothing has changed will not give a useful public policy debate.

That indicates one of the greatest dangers facing these liberalizations. The lack of societal discourse in Sweden over the changes that have in effect been done, both by the government and the opposition, may serve them in the short term as they procrastinate the fact that tomorrow's political debate will have quite little to do with classical welfare issues and optimization of the economy following traditional lines. It may be comfortable to avoid internal conflicts, but in the long run the reforms needed to make Sweden even more dynamic will become ever more difficult.

If someone would have argued in the 1980's that Sweden should follow the model set by France or Germany, it would have been easy to agree. Today, there would be reason to be quite sceptical to that line of reason and instead point out that Europe should adapt to the Swedish model.